



Free trade zones in China

A guide

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<p>Abstract:</p> <p>China has seen major transformations since the late 1970s when the country gradually started to open up its economy. Foreign investors have been acknowledging China's vast opportunities since, as have China foreigner's expertise and resources, contributing to major mutual benefits. Having seen foreigner's potential in regards of increased welfare and acquiring new technology, China has been attracting and easing restrictions on foreign direct investments ever since. From a non-Chinese company perspective, this thesis work seeks to explore the opportunities of a China market entry, particularly focusing on what concretely needs to be done for establishing a foreign invested company in China. The city of Shanghai was chosen as target, being China's center of finance and commerce, but also having recently opened a free trade zone for especially driving new reforms for opening the economy. A company establishment guide will be provided, comparing the process in Shanghai with the China (Shanghai) Pilot Free Trade Zone. The benefits of this specific zone will be studied and compared to policies in Shanghai, to explore whether the zone will offer benefits to foreigners wishing to enter the market.</p> <p>Piloting new reforms to assist China's transformation and opening up, the China (Shanghai) Pilot Free Trade Zone will introduce a range of opportunities to foreign investors. Results show that the zone provide foreigners with unprecedented market opportunities in previously restricted areas. However as attractive, the regulations need to be truly understood, to fully being able to take advantage.</p>	
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1 INTRODUCTION

1.1 Background

The People's Republic of China is an extraordinary country like no other. It requires a significant amount of knowledge for western business actors to understand this unique environment, and if misunderstood, may cause major disadvantages to any business operation. To study China's culture and history are therefore often recommended by professionals, for making the learning process easier. "To understand China's new course you have to understand how it was built and who built it" -Ezra Vogel, author of *Deng Xiaoping and the transformation of China* (Vogel 2012). Everyday life in China and people's way of behavior often reflect deeper patterns that can only be explained by the long and rich history, which also affects local business behavior.

China as we know today, The People's Republic of China was founded on October 1st 1949. During that time China maintained a centrally planned economy led by Chairman Mao Zedong (Morrison 2014 p. 2). It wasn't until the late 1970's and after Mao Zedong's death, when Deng Xiaoping decided to change direction, that China began its transformation. The plan was to gradually reform the economy according to free market principles and open up trade and investment with the west, in the hope that this would significantly increase economic growth and raise living standards (Morrison p 2). Different economic reforms took place, and this was the time when the first Special Economic Zones (hereafter SEZ) were established along the coastline of Mainland China. A more decentralized model was implemented in efforts to decrease dependence on market dominating State Owned Enterprises (SOE). This was the time when privately owned companies and innovation was encouraged emerging into new ways of doing business. International trade played a significant role in development. Trade barriers were removed to attract foreign direct investments, and to accelerate growth for China to enter its path where it stands today. Since 1979, China's average annual real GDP has grown by nearly 10 % (Morrison p. 3).

During recent years, and reflecting back to Deng Xiaoping's early reforms, major changes have occurred. The living standards have increased. From 2000 to 2013 Chinese wages grew at an average rate of 11, 4 % (Morrison p. 9). China is projected to soon surpass U.S. to become the world's largest economy, and according to the International Energy Agency IEA, China overtook the U.S. in 2009 as the world's largest energy user. These achievements have consequences. Many foreign corporations see the increasing labor costs a threat as China is losing its low-cost labor advantage.

During the last economic recession China invested enormous amounts of capital in domestic infrastructure and development (See Figure 1). China's economic policies have resulted in gross fixed investment being the main engine of the country's economic growth for every year from 2000 until recent years (Morrison p. 28). A large surplus and quick actions taken have allowed China being able to continue its growth in difficult times. But as growth is expected to be slowest in decades, the leadership of China has set new goals to transform further. According to the latest five-year plan announced by the Central Government emphasis will be put on reducing energy emissions and fixed investments, but increase domestic consumption (KPMG China 2011). The goal is to have an efficient and sustainable market driven economy with people's consumption as major driver of growth. Therefore emphasis has been put to develop China's services sector. In 2013 the services sector in China accounted 46, 1 % of the GDP (World Bank database i). This is relatively low compared to other middle-income countries (see Figure 2), whereas in developed countries services usually represent between 60-80 % of the GDP (World Bank database ii). To change from a production and export driven economy to a service and consumption driven economy remains important. "When there is more labor-intensive growth, more of total income can flow to households rather than to businesses" Louis Kuijs, chief China Economist at the Royal Bank of Scotland in Hong Kong reflects on China's situation, adding that the services sector alone generated around 37 million new jobs over the past five years (Bloomberg Business 2013).

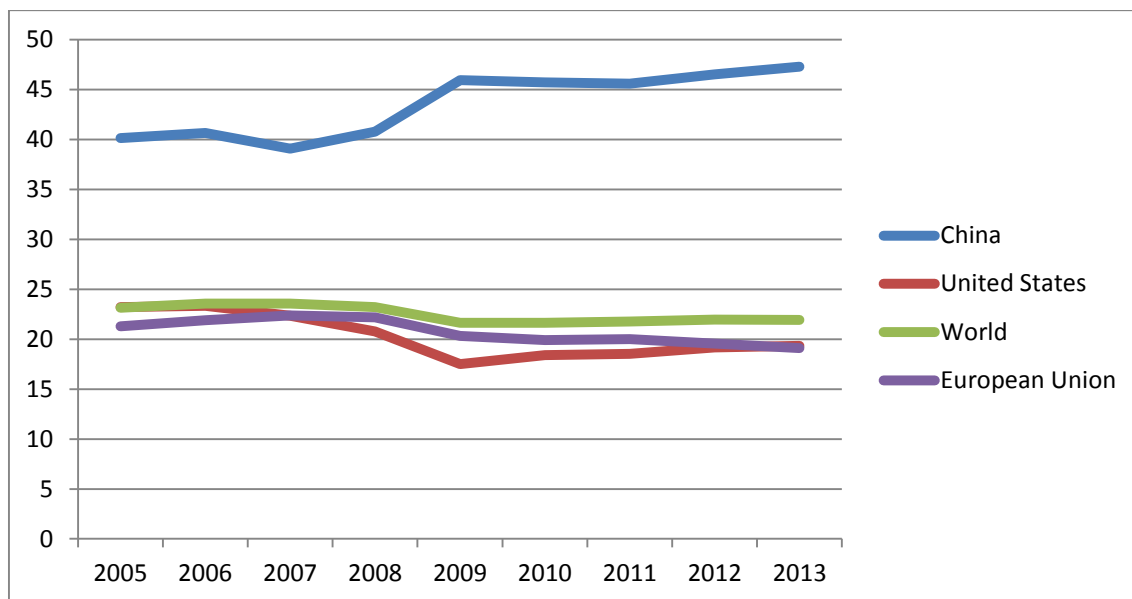


Figure 1 Gross fixed capital formation (% of GDP) source: World Bank database

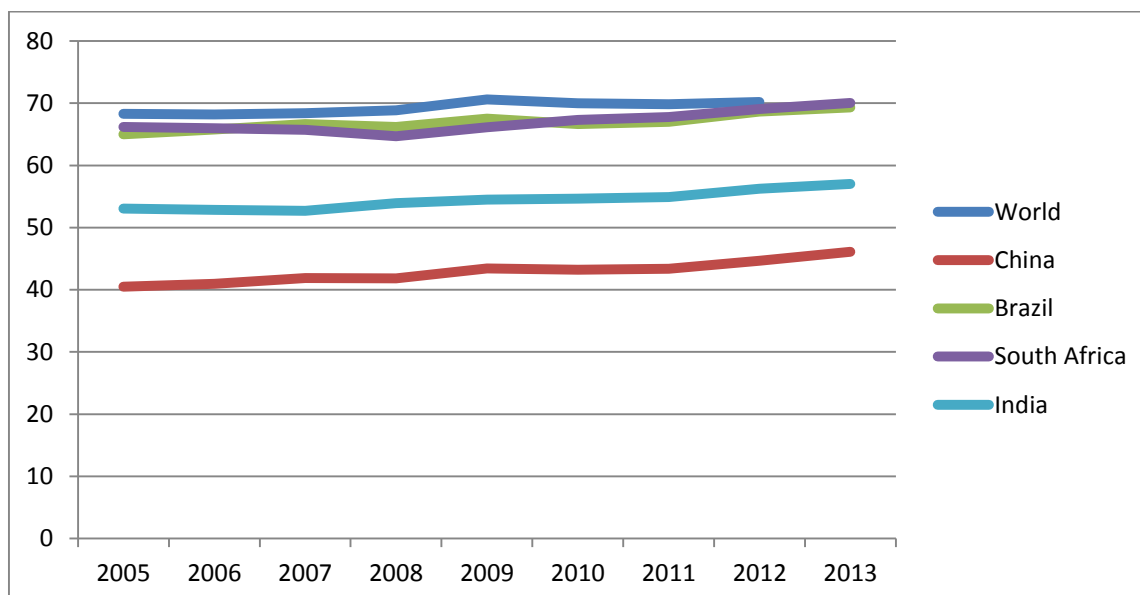


Figure 2 Services, etc., value added (% of GDP) source: World Bank database

The goals set by the Central Government took a concrete leap in 2013 when Li Keqiang, the Vice Premier of China announced the opening of a new free trade zone to Shanghai. The new free trade zone, the China (Shanghai) Pilot Free Trade Zone (hereafter SH PFTZ) was to be the place for new reforms testing. The zone was officially opened on September 29th 2013 with the aims to specifically develop six services sectors.

1.2 Aim of the study and research question

The aim of this thesis work is to examine the alternatives regarding a China market entry. In September 2013 a new FTZ was opened in the city of Shanghai. From a foreign company perspective, this research aims to present the benefits and opportunities the China (Shanghai) Pilot Free Trade Zone will introduce to companies wishing to enter the Chinese market. The research question being:

Will the China (Shanghai) Pilot Free Trade Zone offer benefits for Finnish companies wishing to enter the Chinese market?

A company set-up guide will be provided where the set up phase will be examined from two angles: In Shanghai but outside the SH PFTZ, and inside the SH PFTZ. This thesis will act as an introductory guide where companies will get an overall picture about the process. The focus of this work is to continue where much of the research about the Chinese market has concluded, to include the following thoughts after the decision-making process.

1.3 Research method

This research was done by studying academic articles and books, and through qualitative interviews. The background material was gathered from academic articles and journals from various e-libraries. Books and previously done research publications were often used for backing thoughts and data found. A qualitative approach was taken for conducting the interviews. Besides a limited number of actors available, a qualitative approach made a more detailed investigation possible, providing deeper understanding in complex issues.

1.4 Theoretical framework

China's global position has increased during the last decades making Chinese cities attractive to foreign direct investments. It is not a new phenomenon for foreign companies to establish themselves in China. Nevertheless, China's business environment is complex and ever changing. In general, the Chinese market is a well-studied topic, and research

often exists in form of consultancy information packages published by governmental or private firms. In September 2013, a new free trade zone was established in Shanghai. The China (Shanghai) Pilot Free Trade Zone presents opportunities for both old and new entrants of the Chinese market, diminishing the roles between foreign and local businesses. Due to its highly changing regulatory environment, much of the information are published by governmental authorities in forms of circulars. Hereafter, often the most reputable law or consultancy firms provide their own interpretations, and further discusses the implications. With help of these guides, this research will compare opportunities and alternatives for establishing a company within the SH PFTZ and outside the zone. A guideline for establishing a company will be introduced for both options, concluding with suggestions and thoughts. To fully understand the environment of the zone, the business environment of Shanghai will be introduced, hence being the base for comparison.

1.5 Limitations

Setting up a company and the regulations controlling the process in China vary a lot depending on the industry and business scope. Some industries are forbidden from foreign investors and some are limited. Therefore this research will not specifically focus on any industry alone, but give a general introduction how the business environment could be. Many industries are still e.g. restricted, whereas mono- or oligopoly exists by SOEs. There are many company types or business arrangements a foreign investor can get involved in. To narrow down the subject a focus will stay on Wholly Foreign Owned Enterprises (WFOE) and Joint Ventures (JV) because they remain most popular among foreign investors. Other options will be shortly introduced but not in depth. Furthermore the business environment regarding taxation and other incentives might differ depending on size, type and global influence of a company. These special arrangements will not be covered. Since focus will be on the SH PFTZ, the rest of the alternatives will also focus on the Shanghai area. Different provinces and areas in China have varying regulations regarding foreign investments; therefore suggestions and opportunities mentioned in this research might not be applicable in other parts of China. Due to rapid changes in the regulatory environment of the SH PFTZ, rules regarding specific industry settings will

not be covered. These would become out of date too soon. Therefore this thesis will instead introduce the subject for further consideration and explain how and where the material can be found.

1.6 Significance of the research

This work will be helpful for companies who are in the process of, or have already decided to enter the China market. Suggestions will not be provided about the risks in entering this specific market, but rather how it is done. This thesis focuses on the practicalities after the market entry decision-making process, and introduces what concrete steps need to be taken to finally become operational in China. Regarding the market entry location, this research provides useful information on options within the city of Shanghai, which is particularly important due to changing regulations varying on specific locations within the city.

1.7 Motivation for choice of research topic

While having studied and worked in Shanghai between the years 2012-2014, the city of Shanghai became a familiar place for the author. Acknowledging the vast opportunities that China offers, yet the complexity and highly different business environment, resulted in the author's motivation for studying the subjects further after having returned home from China in 2014. Seeing the opportunities Finnish businesses could achieve through a presence in China resulted in the motivation for making this thesis. Through this thesis work, the author hopes to provide thoughts and considerations for Finnish companies considering a China market entry.

2 FOREIGN INVESTMENT IN CHINA

China has been opening up its market to foreign investors since the early 1980s. At first foreign companies were welcomed to China to accelerate economic development (Morrison p.5). This decision was in accordance with Deng Xiaoping's vision for reform and opening up. Until today, great achievements have taken place for further stabilizing foreigners' position in the country. There are however limitations that are hardly to change in the short future. Foreign enterprises have throughout the history not been allowed access to certain industries, while some industries are limited, or require a local partner. The Foreign Investment Industry Guidance Catalogue (see Appendix 1) is the document specifying changes in the business environment, and clarifies which industries are encouraged and restricted. China's National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) issue the document. Besides clarifying FDI involvement, the guide provides information about industries that might be subject for preferential treatment. These special circumstances should be studied and taken advantage of when possible. Moreover, in some cases foreigners may be allowed to operate on restricted industries, but requires special permission and might be time consuming. Those industries under the encouraged classification often involve high-tech operations and corresponds with that of the government's five-year plan. The government's five-year plan often explains what measures and reforms are being explored within a specific timeframe, and may therefore indicate what industries are to become encouraged in the future.

Today foreign investors are attracted to China through various channels. Cities across the country have established areas that especially desire to attract foreign companies. These areas are frequently referred to as development parks or zones, and offer preferential policies with often similar characteristics. Sometimes the differences are vague, while some areas differ significantly from other. Below three type of special development areas are introduced, thus trying to clarify the differences.

2.1 Development Parks

Development parks and their individual characteristics vary significantly across the country. They are regulated through national and local standards and often focus on a specific industry or a particular set of industries, e.g. medicine and healthcare, to promote industrial and economic development (Hong Kong Trade Development Council 2015). The parks are often established as State Owned Enterprises, and want to attract companies with similar characteristics and functions. Typical ways of attracting foreign companies are providing lower rent/land prices, tax benefits and broader services (China Briefing 2011 i). Development parks differ from other special economic zones by being smaller, local and more focused on specific industries. There are currently various development zones across cities in China, which are categorized into state- and city-level development/industrial zones (Gu 2013).

2.2 Free Trade Zones

Free trade zones are used worldwide to accelerate growth and goods flow between nations (Economy Watch 2010). The general definition for a free trade zone means that this specific zone is a separate area acting independently from the country it is located at, with own establishment of administration. Goods can be imported and further exported to and from the zone without being subject to taxes or tariffs; such fees will only be applicable once exported further into the country it resides in (Encyclopaedia Britannica 2015). Goods within the zone are declared as bonded, and may be stored or processed without intervention of customs authorities (Encyclopaedia Britannica). Operations usually associated with free trade zones include export processing, international trade and bonded operations (China Briefing 2011 i). The State Council established the first free trade zone into China in 1990. At first, free trade zones were the first gateways for foreigners to get less restriction to certain industries. Ever since, free trade zones have been established to major cities and ports across the coastline of China.

2.2.1 Bonded Warehouses

Often associated with, or in combination of functions of free trade zones, bonded warehouses are used for storage of goods, which are bonded from import taxes and customs clearance (China Free Trade Zones Discussion Paper 2014 p. 14). Usually bonded areas do not have any import/export quotas, or license control over goods, and import duties are exempted for goods or equipment etc. that are to be used for activities inside the area, and in accordance with relevant provisions (General Administration of Customs of the People's Republic of China 1997).

2.3 Special Economic Zones

Considering China's Special Economic Zones, the SEZ of Shenzhen usually comes to mind. The city of Shenzhen is located in Southern China's Guangdong Province, on the border of Hong Kong, the Special Administrative Region of the People's Republic of China (SAR). Shenzhen was transformed into China's first SEZ in 1980 and has grown to become a global shipping hub together with high technology and financial services (The Canadian Trade Commissioner Service 2015). The Shenzhen SEZ was established as a gateway between Hong Kong and Mainland China, connecting both areas and further. Transforming from a small fishing village prior to 1980s, to become one of China's wealthiest cities has been possible due to preferential foreign investment environment and early reforms for opening up (The Canadian Trade Commissioner Service). Since Shenzhen's success, other SEZs have been established to several locations around China. During Deng Xiaoping's early reforms in 1980s, a combination of four special economic zones were established. Along with Shenzhen, SEZs were established to Xiamen, Shantou and Zhuhai, a combination that are referred to as the first four SEZs of China (China Central Television 2010). SEZs tend to be broader in scope comparing to development parks, but combine many of the same export-oriented characteristics such as free trade zones, and offer lesser restrictions on FDIs. .

2.4 Foreign Invested Enterprises

Since China's opening up the first foreign involved investments were mainly limited to joint operations together with Chinese partners. After the mid-1980s other foreign invested company types were also introduced such as Wholly Foreign Owned Enterprises (hereafter WFOE). During these times preferential policies for attracting foreign direct investments varied mainly based on geographic location within China. Foreign companies were given nationally approved incentives that were different from those of the local origin. This later resulted in dissatisfaction due to unfair conditions, and brought by new regulations. Once location driven incentives have during recent times transformed into nationally set regulations that are based on specific industries. Authorities maintain The Foreign Investment Industry Guidance Catalogue, which clarifies what industries are encouraged and hence may be subject to preferential treatments.

Foreign investors are currently allowed to establish various types of business arrangements and company types in China, depending on their industry and scope of business. The most common company type's foreign actors involve in are WFOEs and Joint Ventures. Foreign investors may also establish Representative Offices, which are characterized by limited operations including e.g. non-profit seeking activities, or a holding company in Hong Kong, and through the holding company enter the Mainland. These options offer their own benefits and characteristics. The decision upon which company type to engage in should be put thought on at an as early stage as possible. A long-term mindset should be kept, as additional adjustments or arrangements may become difficult, time consuming or even impossible to make. This should include consideration on possible future business activities including both vertical- and horizontal integration opportunities.

2.4.1 Wholly Foreign Owned Enterprises

WFOEs are the most common company type foreign investors engage in today while entering the Chinese market (ECOVIS 2014). The term WFOE means that a company is owned and controlled wholly by foreign capital, set up as a limited liability company and has both corporation and tax resident status (Kaizen). Foreign investors were first allowed to establish WFOEs in China in 1986 (Jussila 2005 p. 27).

The benefits of a WFOE include independent decision-making and security. WFOEs may operate and develop their products independently, while Joint Ventures share these activities with their local partners. Rules may vary according to where one may be located at, but generally requires a minimum of one shareholder (non-Chinese), and specific rules on e.g. registered capital set by the nature of the company (Jussila p. 27).

Foreign investors are currently allowed to engage in a wide range of industries when establishing a WFOE. When considering this alternative the Foreign Investment Industry Guidance Catalogue should be viewed for ensuring that the operations are in accordance with current laws. While some industries do not require any minimum registered capital when establishing a WFOE, some industries still do have minimum requirements. Generally, WFOEs whose operations include manufacturing or are otherwise highly capital intensive should be prepared for a range of specific rules, whereas service companies such as consultancy firms have lesser minimum requirements.

2.4.2 Joint Ventures

There are a few types of JVs represented in the Chinese market today. The two common types are Equity Joint Ventures (EJV) and Cooperative Joint Ventures (CJV). JVs are established together with one or several Chinese partners based on the agreed contract. The contract may be based on the invested equities or other arrangements (Jussila p. 19). JVs allow foreign companies access to restricted industries, to utilize the local company's established networks, and local knowledge. These characteristics are often regarded as the most valuable when pondering on JVs benefits. The local company usually has knowledge of local behavior and networks with governmental agencies, thus provides a softer landing, while a WFOE might need to solve these matters themselves. On the contrary, finding a reliable partner can turn out to diminish the time-benefit whilst the WFOE acts independently.

Working together in cooperation with a Chinese partner allows the local company a fundamental view into the foreign company's operations. This should be considered with caution. Would the foreign company be vulnerable to sharing its technological achievements and patented products? These thoughts should be taken seriously due to different regulations; intellectual property laws are not as developed in China as they are in the

west. This stresses the importance of screening for possible partner candidates adequately. Also thoroughly investigating the actual investment contributions are recommended. If the local company provides its local knowledge and network in exchange for the foreign company's e.g. high-tech product, the contract needs to reflect the actual values for these specific inputs.

2.4.3 Equity Joint Ventures

EJVs are Chinese limited liability companies established with contributions from both foreign and local investors, distributing profits and liabilities based on respective equity ratios (Jussila 2005 p. 22).

2.4.4 Cooperative Joint Ventures

CJVs have similar characteristics of EJVs, but offer more flexibility. The CJV is created through capital investments from foreign and domestic parties, while profits may be shared in proportions that differ from the initial contribution (Jussila p. 19). The CJVs may be structured as a limited liability company or an unincorporated business, while the latter distributes liabilities to the investors, instead of the established venture (The Canadian Trade Commissioner Service 2015).

3 SHANGHAI'S BUSINESS ENVIRONMENT

Table 1 Shanghai facts

Permanent residents	14 323 400
Long-term residents	24 151 500
Area	6340.5 sq. kilometers
Language	Mandarin/ Shanghainese
GDP per capita	14 547 dollars
Unemployment rate	4,20 %
Corporate Income Tax	25 %

Source: Shanghai Basic Facts 2014

Shanghai, or by its Chinese name 上海, is China's largest city and one of the four autonomous municipalities in China, together with the municipality of Beijing, Tianjin and Chongqing (Shanghai Basic Facts 2014).

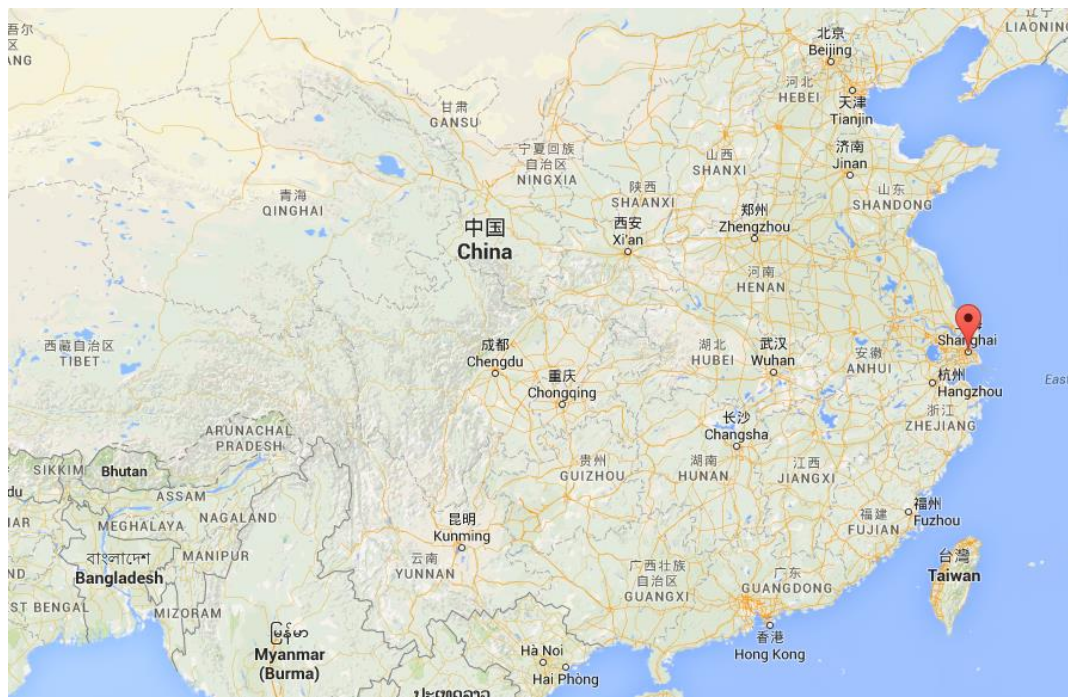


Figure 3 Map of China. Source: Google Inc.

Shanghai is the commercial and financial center of China, located at the mouth of Yangtze River Delta, and the Huangpu River which crosses the city in two: Puxi and Pudong side. Besides being the largest city in China, it also hosts the busiest container port in the world,

accompanied by two airports Hongqiao- and Pudong International, and three railway stations whose connections cover the entire country and beyond.

Shanghai has throughout its history been a highly international and open city to foreigners, and perhaps due to an English book published in 1935 *All about Shanghai*, brought word about the far metropolis to the west (Ye & Zhu 2008). “Shanghai has been at the forefront of China’s economic reforms and opening-up to the outside world, and has played the leading role in China’s adaptation to world trade rules” (Gong 2005). In 2012 Shanghai was the home for over 173 000 foreign residents and it is estimated that approximately 35 000 foreign companies are located in Shanghai (Consulate General of Finland in Shanghai).

Being such a great city with a population surpassing many countries solely, Shanghai is divided into several internal districts. Shanghai Municipality governs and covers 17 local districts (See Figure 4), which include special characteristics such as Pudong, being the financial center not only for Shanghai, but also for whole China. Each district has its own administration which act under Shanghai Municipality. Within Shanghai there are furthermore multiple development zones which each specialize on a set of industries (see Appendix 2). When considering Shanghai’s business environment these areas are to be further studied due to their possible preferential characteristics. Depending on the location one wishes to operate in, the corresponding authority should be located at that specific area.

Shanghai has for a long time enjoyed the title of being China’s center of commerce. This can be seen from the large amount of regional headquarters being based in the city. In 2012 the Yangtze River Delta area consisting of Shanghai, Jiangsu and Zhejiang attracted 57 % of all foreign investments in China (Finnish Consulate General in Shanghai). The city aims to become a global commerce center in the coming years, which is done by focusing on innovation, economic transformation and industrial upgrade (Shanghai Basic

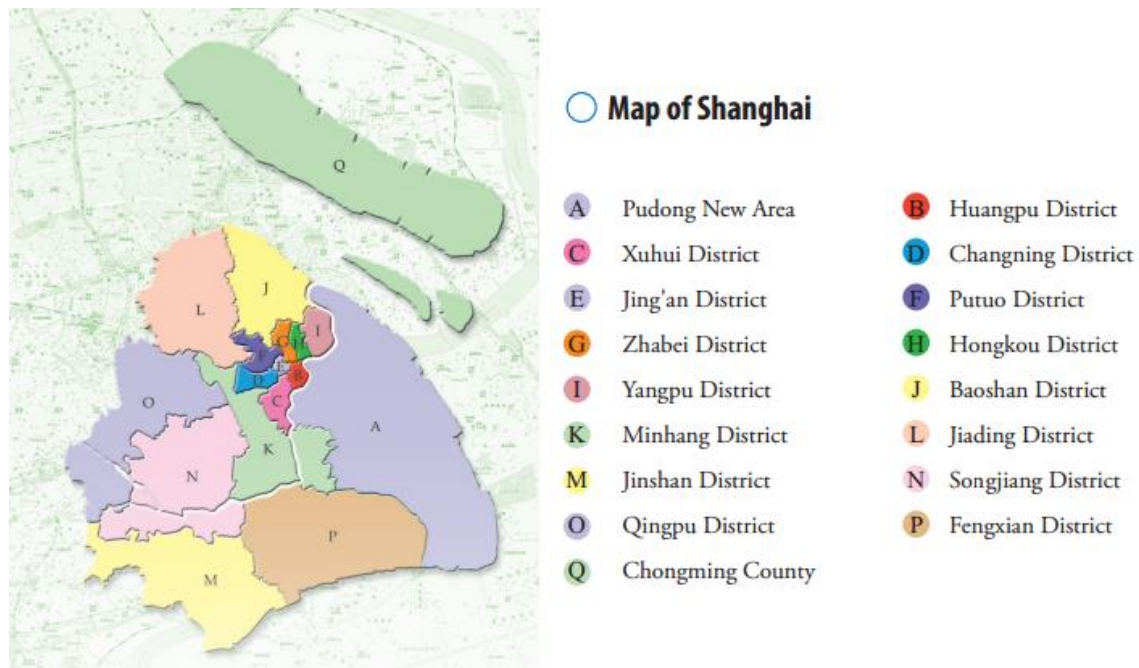


Figure 4 Shanghai districts. Source: Shanghai Basic Facts 2014

Facts 2014 p. 20). The services sector has been increasing, representing 62, 7 % of the city's GDP in early 2014, led by finance, telecommunications, software and modern services (Information Office of Shanghai Municipality 2014). This represents a higher amount than in other parts of the country, proving Shanghai being at the forefront of modernization. During the first half of 2014 Shanghai's FDI increased 10, 9 % while FDI in the service sector grew 28, 6 %. While the majority still originated from other Asian countries representing 73, 9 % of the total FDI, investments from Europe and America also grew at 7, 5 % and 2, 1 % respectively (Information Office of Shanghai Municipality 2014). "The fact that FDI is coming from more countries indicates that the world is confident about Shanghai's economic development" (Information Office of Shanghai Municipality 2014). These qualities have made Shanghai the most suitable place for piloting economic reforms, having grown to a modern and rapidly developing investment environment leading the way for China's opening up.

3.1 Shanghai Stock Exchange

Shanghai was the first city in China to see a stock exchange, where trading started as early as in 1860s. Since China's opening up, the Shanghai Stock Exchange (SSE) has developed in accordance with economic reforms, and was established to its present form in the end of 1990. Today the SSE has grown to become a modern platform with a total turnover of RMB 86,509.83 billion, being the seventh largest stock exchange in the world by total market value as of 2013 (Fact book 2014).

During 2014 the authorities announced of a pilot programme: the Shanghai-Hong Kong Stock Connect. Under the pilot, the Stock Exchange of Hong Kong and Shanghai Stock Exchange will establish a mutual trading link to allow investors from both markets to gain trading access on shares listed on the other's market (Shanghai-Hong Kong Stock Connect 2015).

3.2 Finland's presence in Shanghai

Finland has a long history in Shanghai having opened its first consulate office to the city in 1924. The city hosts the largest community of Finnish residents, around 1000, outside Europe and the greater Shanghai area around 200 Finnish companies, of which the majority are located in Shanghai (Consulate General of Finland). Today many Finnish governmental agencies are represented in the city such as Finpro, Tekes and FinChi, to mention a few. The Consulate General of Finland in Shanghai promotes Finnish interests in the area, and promotes commercial, economic as well as scientific and cultural ties between Finland and China (Consulate General of Finland). The presence of Finland in Shanghai is widely organized by private as well as government lead programs and events. *Shanghain suomalaiset ry* held its founding meeting in 1998, and promotes general well-being and adaptation to a new environment for Finns living in the city (Shanghain suomalaiset 2015). Together with other bodies and organizations, they provide support and organize events, having established a well-functioning network for Finnish residents living in Shanghai.

4 REGISTERING A COMPANY IN SHANGHAI

Registering a company in Shanghai is done at that specific area's relating office where the company is to establish its operations. The Shanghai Municipal Administration for Industry and Commerce (SHAIC) is the authority responsible for market surveillance and law enforcement concerning industry and commerce in Shanghai, consisting of 17 internal divisions and 18 district-level branches (Shanghai Administration of Industry and Commerce 2004).

The company registration process involves applying and submitting documents to several different authorities, whereas some documents might be submitted together. The documents and their requirements vary depending on industry and type of operations, and due to their complexity many foreign investors prefer to hire professional consultants to assist with the set up. Also depending on the location, some development zones might provide assistance with the set up. Whether a professional is hired for assistance or not, it is good to have a general view of the whole process.

Shanghai is a great city with different local authorities. Before entering into further process one should be aware of the intended location of the company's operations. Hereafter it is easier to compare and forecast upon the requirements more specifically. Different districts may have different rules on a wide range of subjects. Also, different company types obviously set different requirements on facilities or additional licenses e.g. associated with trade. However, many of the phases are somewhat similar along the set up phase regardless of location and company type. Below are given general examples that are associated with a WFOE establishment. The most common steps are explained in more detail, and are probable to be subject to within the establishment regardless of the company type.

The following steps are provided by the Shanghai Administration for Industry and Commerce regarding a Foreign-Invested Company establishment:



Figure 5 Establishment of a Foreign-Invested Company. Source: SHAIC

1. Application Form for Establishment Registration of the Foreign-Invested Company.
2. Approval documents issued by the examination and approval authority.
3. Articles of Association.
4. Pre-approval Notice of the company name.
5. Certificate of establishment or ID certificate of the investor(s).
6. Appointment documents for legal representative, directors, supervisors and General Manager and copy of their ID Certificates.
7. Certificate for the right of use of the domicile.
8. Documents of pre-approval in case the establishment of a foreign-invested company is subject to the approval prior to registration as required in relevant laws or administrative regulations or regulations of the State Council.
9. Power of attorney for acceptance of legal documents.
10. Other documents where appropriate.

The establishment can be divided into three phases. The first being the pre-registration formalities, the second the actual license application, submitting and registration, and lastly the post- registration procedures. The first phase involves signing an office lease contract and applying for a company name, to be able to commence the license application. The second phase, the actual application, includes submitting the documents for the business license. After having obtained the business license the third phase includes registering with various authorities for finally becoming legally operational.

PRE-FORMALITIES

4.1 Company name

The company name is registered at the local State Administration of Industry and Commerce (SAIC) office. The name has to follow set rules that are governed by the Measures for the Implementation of Administration of Enterprise Name Registration (Wang 2004). The format for WFOE is:

Name of city + name of the enterprise + industry + company limited

The name should be in Chinese, should not have content which damages fair competition and misleads the public, and unless given special approval, should not contain the following words: China, Chinese, National and State (Wang). The rules concerns the Chinese names only, translations into English are done independently, according to translation standards. When submitting the name application, up to ten different versions should be provided. This is to provide alternatives in case of e.g. some of the suggested names would already be taken or incomplete. Once completed correctly, the pre-approval of the company name can be obtained. According to new rules the company name can be approved or rejected immediately if submitted in person (Doing Business 2015 p. 21).

4.2 Company address

Before being able to file and process any of the following steps the company needs to have a local business address. The premises need to be specifically intended for commercial use and otherwise in accordance with the intended operations. Once the location or office have been found, the required documents should be prepared together with the landlord for the authorities.

A noteworthy matter is to agree upon a special clause in the lease where it is stated that the contract may be terminated if the applied business license would be denied. This is a recommended precaution, as rental contracts may be extending over several months or longer, including possible down payments (Harris 2014).

4.3 Articles of Association and Feasibility Report

This step requires the company to prepare a set of documents that further specifies the company's operations and future plans. It is important that the documents are prepared carefully and honestly to avoid future problems. These documents explain in detail what operations are to be done, how they are done and how they will be funded, and are the basis for many procedures that will occur during the lifespan of the company, e.g. bank loans. The aim is to clarify and prove that the intended operations are carefully planned, feasible and sustainable etc. (China Briefing 2011). Examples of documents to be included are:

- Scope of business
- Total investment
- Board of directors
- General Manager
- Feasibility
- Profits repatriation
- Liquidation

4.4 Preliminary bank account

A preliminary bank account is opened with aims to clarify the authorities about the investments and relevant contributions associated with the company registration. When companies are established, funds are to be injected to the company. This should be in accordance with the information provided on the articles of association. This injection is called as the company's registered capital. Even though a recent amended company law removed previous minimum capital requirements, the registered capital still needs to truly correspond to that of the intended operations. This capital will in a later stage be used for day-to-day operations, and is often the only source of capital a company has access to, before becoming profitable (Yao et al. 2014).

After the funds have been deposited, and if required verified by a licensed auditor, the certificate of deposit can be obtained. If non-monetary assets have been used as contributions these have to be certified separately (Doing Business 2015 p. 22). These contributions will in a later stage be deposited to the company bank account as the registered capital, see 4.9 "Opening company bank accounts".

4.4.1 State Council Order [2014] No. 648

On December 28th 2013 China's National People's Congress adopted the decision on amending the People's Republic of China Company Law and State Council Order [2014] No. 648. The amendment was taken effect on March 1st 2014 with aims to lower company establishment requirements on foreign invested enterprises. The new revised law removes prior requirements on minimum registered capital, payment schemes and the deposit verification (Hui 2014). Investors now have more flexibility on deciding the amount and how to pay their capital contributions. With the new law companies are theoretically allowed to pay their whole contribution in non-monetary assets. Also, a payment of 20 % of the contribution upon registration is withdrawn from the revised version (Woon-Wah et al. 2014).

SUBMIT DOCUMENTS

When all the above mentioned documents have been prepared, they will be attached to the business license registration form that is submitted to the SHAIC. Once the license application has been approved, it still needs to be separately registered. When these steps have been completed the company can commence the post-registration formalities. In some cases a parallel application and review process is utilized, whereas documents are processed in-house between authorities. Since 2010 most districts in Shanghai have been implementing this method, combining the processing of the business license-, certificate for quality and technology-, and state and local tax application (Doing Business 2015 p. 22). To identify each step better, these will be explained separately associated with the post-registration formalities.

POST-REG. FORMALITIES

4.5 Shanghai Organization Code Management Center

After having obtained the business license the company needs to register with the Shanghai Organization Code Management Center, which is a branch of the Quality and Technology Supervision Bureau. This has to be done within 30 days from obtaining the license (Doing Business 2015 p. 22). The organization code certificate includes the following information regarding the company: code number, organization name, organization type, address, period of validity and issuing authority (Slater 2014). The organization code is used for several purposes including opening a bank account and applying for additional permits or licenses, and dealing with different authorities.

4.6 Tax Authorities

This step includes two phases that are of concern to the tax authorities, but are to be done separately. First, the company needs to register with the local and state taxes, which are done simultaneously at the local SAIC office. Secondly, after having successfully applied and received the tax registration certificate, the company must apply for approval to purchase and issue financial invoices and receipts (Doing Business 2015 p. 24). When selling or providing taxable services, companies should issue invoices to their customers, which can be done either through traditional paper invoices, or electronically. For paper based invoices a machine especially intended for this purpose has to be bought from the tax authority, whereas electronically issued invoices are done online. This process is used by the government to record transactions and monitor value added tax. As for companies, invoices are used for bookkeeping, deduction and for record of transaction purposes (China Briefing 2013 i).

4.7 Company seals

Company seals or stamps are needed for verification and signing purposes. The importance of seals relate far back in Chinese history and are still valued more important than signatures. After having successfully completed the registration, a notice to make the seals will be issued to the company by the local police department (Doing Business 2015 p. 23). When having obtained the approval the company may produce their personal seals through a licensed manufacturer. Different seals are used for different purposes as for signing, customs and financial purposes (Jussila p. 33). The company seal usually represent the highest authority of seals and may only be used by authorized personnel. After having produced the required seals they are to be registered at the relevant authority, usually the Public Security Bureau (New Zealand China Trade Association). Depending on the design, making the seals may cost around 70- 300 RMB (Doing Business 2015 p. 23).

4.8 Statistics Bureau

Companies need to register with the Statistics Bureau within 30 days after having received the business license (Doing Business 2015 p. 24). Companies in China are to report according to current laws various monthly and other reports, corresponding to that of local and national regulations to the Statistics Bureau.

4.9 Company bank accounts

At this step the company needs to open company bank accounts and transfer the registered capital to it (Doing Business 2015 p. 24). Only hereafter the capital may be used for company related operations. Depending on the company's operations, different account types shall be set up, including foreign currency accounts and RMB corporate accounts (Doing business in China 2012 p. 42).

4.10 Career Service Center

When recruiting personnel, the company needs to register to the local career service center, which has to be done within 30 days from recruitment (Doing Business 2015 p. 25)

4.11 Social Welfare Insurance Center

Employers in China need to pay several social security payments and payments to government-run funds for their employees (China Briefing ii 2013). During recent years the government has increased efforts to develop the social welfare system for its citizens, raising further the already increasing labor costs. Different locations in China may have varying regulations regarding employees' social welfare costs, but foreign companies in Shanghai have particularly been encountered with prominent costs during recent years. This, in relation to other parts of China has resulted in Shanghai being relatively more costly for employers regarding labor costs, according to the American Chamber of Commerce in Shanghai's article on social welfare in Shanghai (The American Chamber of Commerce in Shanghai).

When a company has been established, it needs to register with the local Social Welfare Insurance Center within 30 days. This is done through submitting the social insurance registration form either online or at location (Doing Business 2015 p. 25).

4.12 Set-up time

Different sources report different timeframes for the set up process. The official times given by authorities may also change due to a vast number of reasons e.g. not finding a suitable company name. Generally this is a rather time consuming process and up to six months should be reserved for the whole set up (Harris 2012). This can however extend greatly if operations include e.g. trading, manufacturing, or medical equipment etc. due to special permits, and should always be considered case by case, with precaution.

4.13 Set-up costs

The administrative costs regarding the set up process vary naturally case to case depending on a company. Costs might vary and change due to many reasons and is difficult to estimate without knowing details of the intended company. The administrative handling fees are however relatively low in China, but may lead to increased set up costs depending on consultancy or equivalent fees.

4.14 Registration documents

The required documents and forms can be downloaded from the State Administration for Industry & Commerce of the People's Republic of China's webpage:

<http://english.wzj.saic.gov.cn/gfr/ybxz.html>

5 CHINA (SHANGHAI) PILOT FREE TRADE ZONE

The China (Shanghai) Pilot Free Trade Zone was officially opened on the 29th of September 2013. It was the outcome of Vice Premier Li Keqiang's statement for further opening up China. Li has been the front figure for the pilot and represents China's highest-ranking officials. While free trade zones in general aim for boosting trade and international commerce, the SH PFTZ aims for deeper effects, which can be categorized into three characteristics that points out the unique features of the zone and further defines the significance of the project:

- Preferential customs policies associated with free trade zones
- Pilot area for new reforms testing
- Platform for easier China penetration

The SH PFTZ combines four special economic areas within Shanghai with a unified regulatory system that has been established, for especially driving the benefits of the zone. The aims are to pilot new reforms that drive the opening up of the economy. This includes developing the services sector, piloting new financial reforms and developing a unified regulatory body that supports the process. The goal is to pilot, gather information, develop and implement measures that finally can be extended nation-wide, hence contributing to the whole country (China (Shanghai) Pilot Free Trade Zone i).

The SH PFTZ, or by its Chinese name 中国（上海）自由贸易试验区, combine four areas under the special administration of customs, namely the Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Free Trade Zone, see figure 6, (China (Shanghai) Pilot Free Trade Zone ii).



Figure 6 Shanghai free trade zones. Source: China (Shanghai) Pilot Free Trade Zone.

The Pudong International Airport is located in the center of the four areas that together cover almost the city's entire coastline, with a combination of 28, 78 square kilometers.

5.1 Waigaoqiao Free Trade Zone & Bonded Logistics Park

The northern part of the zone, the Waigaoqiao Free Trade Zone was the first free trade zone in China approved by the State Council (China (Shanghai) Pilot Free Trade Zone iii). It is located in the northeastern part of Pudong New Area and covers a 10 square kilometer area with plans to expand. Since its establishment in 1990 it has affected the city with great prosperity, with a gross industrial output value of RMB 72, 07 billion in 2011, and a throughput of over 16 million twenty-foot equivalents (TEUs) in 2013 (Hong Kong Trade Development Council 2014). The Waigaoqiao Free Trade Zone has been developing its main focus areas of international trade, advanced manufacturing, modern logistics, service and duty-free commodity exhibition and trading, to become a successful example of contemporary development in China (Pudong New Area Government ii).

The Waigaoqiao Free Trade Logistics Park, part of the Waigaoqiao Free trade Zone, was approved by the State Council in 2003 and started operations in July the following year. Being a little over 1 square kilometer bonded zone, the Waigaoqiao Free Trade Logistics Park provides companies with warehouse, clearing assistance and other logistics services (China (Shanghai) Pilot Free Trade Zone iii).

5.2 Pudong Airport Free Trade Zone

Located at the Pudong International Airport, the Shanghai Pudong Airport Comprehensive Free Trade Zone serves as an international transition, distribution, procurement, entrepot trade and export processing area (Pudong New Area Government i). The total area covers 3, 59 square kilometers and its characteristics include preferential customs policies and tariff exemptions in cross border trading (China (Shanghai) Pilot Free Trade Zone iii).

5.3 Yangshan Free Trade Port Area (Land & Harbor)

The Yangshan Free Trade Area consists of the Yangshan Deep Water Port, the Donghai Bridge and the supplementary park of Luchao Port located in Shanghai's Nanhui district (Pudong New Area Government iii). Located at the Yangshan islands, the Yangshan Deep Water Port started its operations in late 2005 and has grown to the busiest container terminal ports in the world, with a throughput of more than 14 million TEUs in 2013 (China (Shanghai) Pilot Free Trade Zone iv).

5.4 Negative List

The state approved Special Administrative Measures on the Entry of Foreign Investment into the China (Shanghai) Pilot Free Trade Zone, the Negative List, is the document specifying restrictions on a set of industries in the SH PFTZ. Those companies whose industry and scope of business are listed on this document are restricted, and subject to pre-approval procedures that are comparable to those outside the zone (Lu 2014). The beneficiaries of the negative list procedure are those companies whose operations are outside of those mentioned on the list. In such case, the company can take advantage of the record-filing

procedure, the one-off acceptance procedure that allows faster application, screening and approval process. Those companies whose industry is in accordance with the Negative List, that is to say not mentioned, can take on the general assumption that their license will be approved. The list has been shrinking since its introduction from 190 to 139 specific industries as of July 2014 (Zito et al. 2014). It is under constant development and the authorities have announced that it will be further studied and scaled down in the first half of 2015 (China (Shanghai) Pilot Free Trade Zone xi).

The negative list can be seen as the zone's version of the positive list; The Foreign Investment Industry Guidance Catalogue, that specifies allowed and encouraged industries across the rest of the country. Through the introduction of the negative list the SH PFTZ has been able to implement the one-off acceptance procedures, where applications are processed through filing, instead of approval- based procedures.

The effects of the Negative list does not only provide faster application procedures, but also pilot's new administrative reforms. The one-off acceptance procedure introduces a new way of authorial cooperation, where documents are processed in-house between bodies, instead of separate bureaus.

5.5 Service sectors

The government has chosen to develop the services sector in effort to increase domestic consumption, a long-term goal to transform economic growth from governmental investments to more market driven factors. The six services sectors below introduces the main features what are to be expected in respective field. While some policies have already been taken into action, some are still under development and waiting for final approval.

5.5.1 Financial Services

Having previously attained strict control of the financial sector and foreign currency flows, the SH PFTZ aims to pilot financial reforms for developing China's financial policies. The SH PFTZ will be the first to pilot RMB capital account convertibility, interest rate liberalization, and cross-border RMB usage in a greater extent (Palmioli & Heal

2014). This is a long planned move towards increasing importance- and to promote internationalization of the RMB. Companies and financial institutions within the zone may now borrow RMB funds from overseas without pre-approval, according to set rules, to be used inside the SH PFTZ, or outside China for the purposes inside the SH PFTZ (The Shanghai Headquarters of People's Bank of China 2014). Plans are ongoing to allow Chinese banks to offer offshore services, and let nonresident investors access to domestic securities (Palmioli & Heal). The relaxed cross border policies will be implemented through a free trade bank account that companies and individuals within the zone may open. The accounts will be treated similarly to accounts outside China, and supervised on a pilot basis in a risk-controlled environment (Palmioli & Heal). Companies within the zone will be able to use the account for financing, investment and other cross border transactions (Hogan Lovells 2014).

5.5.2 Shipping Services

To continue the development of Shanghai's already extensive shipping services, the SH PFZT will pilot simplified procedures in regards of customs formalities and registration. Restrictions on joint venture equity ratios in the field of international marine business will be relaxed, as foreign shareholdings have previously been limited to 49% (The Supreme People's Court of the People's Republic of China 2004). According to the British Chamber of Commerce in Shanghai, foreign investors may now take more than 50% stake in the SH PFTZ to engage in international vessel transport business (Chan & Groffman 2013). Another restriction that has been waived are foreigner's role in international ship management, a field that previously could only be accessed through a joint venture. Today foreigners in the SH PFTZ may establish WFOEs within the industry (Chan & Groffman).

5.5.3 Commercial Services

New policies to be adapted within commercial services include broader foreign engagement in value-added telecommunication services (Palmioli & Heal 2014). Unlike from the rest of the Mainland, foreigners will now be able to set up wholly foreign owned e-commerce companies in the SH PFTZ. Prior to SH PFTZs removal of this barrier, foreign

investors have only been allowed to China's gigantic e-commerce market through a Sino-foreign joint venture, restricted to a 50% ownership (Yao & Elsinga 2015).

5.5.4 Professional Services

The professional services sector include industries within legal services, credit investigation, tourist agencies, talent agencies, investment management, engineering design, and construction services (Palmioli & Heal 2014). Opening up of these fields will include piloting new ways of foreign involvement and Sino-foreign cooperation. The reforms will mainly reduce restrictions on previous foreign involvement, in means of allowing foreign majority ownership, and access to previously restricted areas (China-briefing 2013 iv).

5.5.5 Cultural Services

Cultural services reforms includes removing restrictions on foreigners in the Artist Agency and Entertainment industries. Foreigners will now be allowed to establish WFOEs within these fields, and equity ratio restrictions have been removed in regards of joint ventures (Ernst & Young, China 2014).

5.5.6 Social Services

Reforms in the Social Services sector involve education, training and employment skills training, and medical services. The education and training employment skills training sector will allow foreigners access to the industry through joint ventures, while the medical sector will allow foreigners to establish WFOEs (Ernst & Young, China 2014).

5.6 Transportation

Shanghai's transportation network is highly developed and under constant expansion. Today, the metro network include 14 lines covering 548 kilometers and 337 stations in total (Shanghai Metro 2014). Transportation to and within the SH PFTZ is effective including various choices of metro, public busses and a Maglev- train connection. The Waigaoqiao Free Trade Zone is connected through metro line 6, Pudong Airport through metro line 2 or the Maglev train connection, and the Yangshan Free Trade Port Area with line 16.

Furthermore, the zone offers various free of charge shuttle bus connections to and within the areas.

5.7 Effects of the SH PFTZ

After having been operational for over a year, a wide range of newly registered companies can be seen present in the SH PFTZ. While local companies still represent the vast majority, some 1677 foreign companies, including Hong Kong and Taiwan, have established themselves within the zone as of September 15, 2014 (Baccam 2014). A recent announcement has indicated that the SH PFTZ will be expanded to cover 120, 27 square kilometers, now including the areas of Lujiazui Financial District, Jinqiao Export Processing Zone and Zhangjiang High-Tech Park (China (Shanghai) Pilot Free Trade Zone v). During its operation so far, the time for customs clearance formalities has been cut by 41, 3%, 6925 companies have been granted permission to open free trade accounts, and consumer goods imports grew at 21, 4% during 2014 (China (Shanghai) Pilot Free Trade Zone v & vi). The government, including President Xi Jinping have urged to expand successful reforms nationwide (China (Shanghai) Pilot Free Trade Zone vii). Currently 22 reforms are to be promoted outside the zone during 2015 (China (Shanghai) Pilot Free Trade Zone viii). Other measures are to be implemented in free trade zones across the country, whereas plans to establish a joint system between authorities to enhance interdepartmental cooperation for reforms in free trade zones in the whole country are ongoing (China (Shanghai) Pilot Free Trade Zone ix). Already, a set of three new free trade zones have been announced to open, following the model of the SH PFTZ in Tianjin Municipality and Guangdong and Fujian provinces (China (Shanghai) Pilot Free Trade Zone ix).

6 REGISTERING A COMPANY IN THE SH PFTZ

Registering a company to the SH PFTZ varies across different industries, but theoretically represents much of the same process as described in chapter 4, Registering a company in Shanghai. The main advantages that the SH PFTZ offers in regards of the registration are simplified and faster procedures. This is possible through the implementation of the Negative List and the one-off acceptance procedure (See figure 7). This means that there are no specific steps and waiting times between each phase along the registration process, all documents and required forms can be submitted at one place instead of separate bureaus (China (Shanghai) Pilot Free Trade Zone x).

6.1 Pre-registration

Being able to get the application procedures started the company name has to be decided and approved by the authorities similarly as outside the zone, accompanied with the office/ warehouse etc. documents. Once the name has been approved and the company has received the pre-approval of the enterprise name, the application can commence (China (Shanghai) Pilot Free Trade Zone x).

6.2 Fill documents through online portal

The SH PFTZ has a portal website for the application process. When the pre-approval of the enterprise name has been received one can log in to the FTZ Investment Application Express on the portal website (China (Shanghai) Pilot Free Trade Zone x). First it is important to compare the company's profile and characteristics against the Negative List. All documents shall be completed online. Hereafter the required documents and forms are printed and signed by authorized personnel of the company. When the documents are in order, signed and prepared as required they can be submitted to the investment management service window of the General Service Hall of the SH PFTZ:

General Service Hall

1/F, 9 Jilong Road, Pudong New Area, Shanghai

Post Code: 200131

6.3 Post-registration

After having received the business license, the company still needs to register for relevant supplementary services and permits, see Appendix 3 for details. Depending on the company's operations, possible additional licenses are also applied at this stage e.g. import and/or export licenses.

This process is referred to as the one-off acceptance procedure, relating to the unique method of being able to apply, submit and receive the approval, all at the same specific location. Through the one-off acceptance foreign and local companies are now faced with same registration formalities, the only difference being comparing one's industry against the Negative List as a foreign applicant.

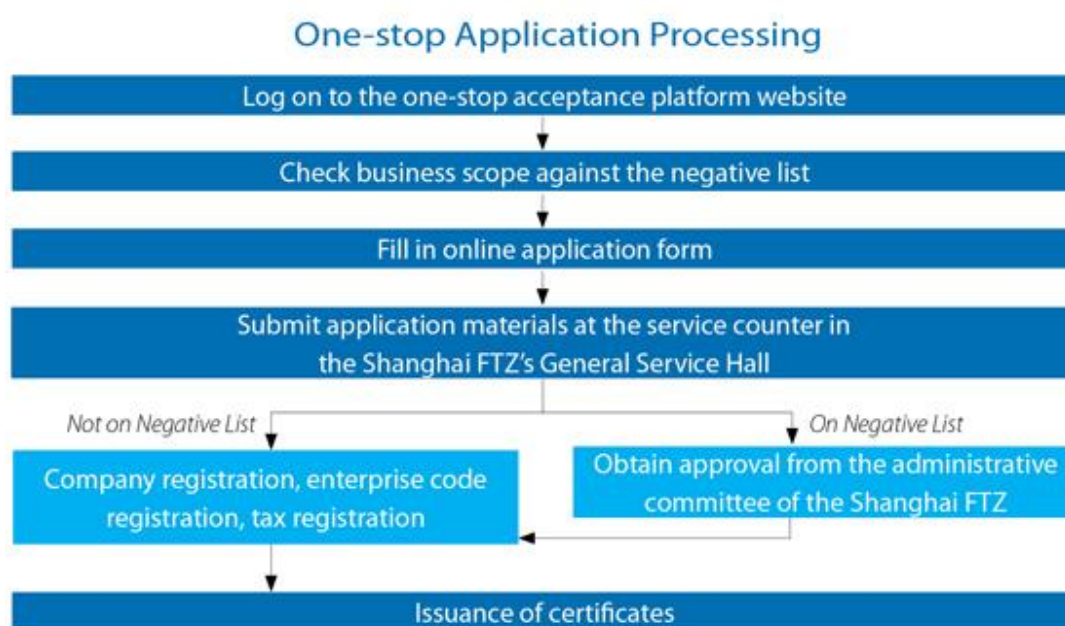


Figure 7 One-stop Application Processing. Source: China Briefing

7 INTERVIEW RESULTS

To acquire true and feasible results within the covered subjects' qualitative interviews were conducted with companies or experts that already have significant knowledge about China. Candidates were found through various channels, utilizing the author's contacts in China, social media (LinkedIn) and a breakfast seminar "Succeed in China".

Case 1. Finpro Shanghai

Lisa Li works for Finpro in Shanghai, a governmental organization part of Team Finland, which together with its network organizations promote Finland and Finnish businesses abroad, and offer advisory services to companies in various stages e.g. internationalization.

Finpro was recently transformed into a wholly Finnish governmental owned organization, and thus became a stronger part of the Team Finland network. Lisa explains the renewal within the organization can be seen rather clearly in her daily work, having previously been involved in more specific consultancy projects. Now days they are engaged in projects on a more general level. If the client want more specific advice, we can recommend reliable contacts that we know and have previous experience from, Lisa adds.

Lisa told that their office is contacted by Finnish companies in various issues, often due to their specific expertise and networks in China. Companies know they can trust us in a challenging place like China, and are therefore interested to seek advice and recommendations from us, Lisa explains.

When asked what usually determines a company's location in China, she says there are many areas that focus on specific industries, such as development parks and free trade zones, and because of their expertise in that area, provide an attractive solution. The company registration process can be a burden, but if an area is focused on the same industry, they can assist with specific issues and thus offer a good solution, Lisa explains. Development zones are established with different focus areas, and they often offer better services and attractive incentives. Due to Shanghai's huge expansion and status, running a

company has become more expansive in the city. Lisa therefore recommends companies to also look to other areas, especially areas in nearby provinces. These areas might provide substantial benefits, while still being on a reasonable distance from major services. Due to huge expansion, first-tier cities such as Shanghai have due to limited space become costly in relation to second-tier cities, such as Suzhou, nearby Shanghai.

Regarding the benefits of the SH PFTZ, Lisa points out the quick registration, and customs formalities. Companies can set up a warehouse in the SH PFTZ and use it as a transit or processing facility, which offers flexibility due to preferential customs policies. However, the costs of being located in the SH PFTZ might be the most costly of comparable areas within Shanghai, therefore companies should be clear about the costs in relation to what benefits they actually can acquire there. Another option according to Lisa is to establish a so called “virtual office” in the zone, and take advantage of the preferential policies in a smaller scale, or for a specific function. The company could then have another office/facility in a cheaper area for other operations.

Registering a company in Shanghai is still quite a workload according to Lisa. Sometimes it even turns off interested companies due to loss of time. Companies often hire consultants to assist with the set up, but due to cultural differences and misunderstandings, some cases end up badly because of trust issues. Finnish companies might not have a clear picture about the actual business environment here, which may cause frustration and misunderstandings, she explains. Another issue Lisa points out is the importance of market analysis. Companies should put enough effort to understand China’s behavior. Some Finnish companies are simply too small for Chinese partners to be interested in cooperation, she mentions. She also recommends to participate in seminars or lectures about cultural differences, for getting a genuine understanding.

When applying for a business license in China, the scope of business should be made as broad as possible according to Lisa. If changes have to be done afterwards, the whole set up process has to be done from scratch. Lisa recommends to keep a long term vision when planning the set-up, considering at least 5-10 years ahead, to avoid unnecessary steps. At best, the registration can be completed in 3-4 months, but as for manufacturing and trading companies, the set-up can be extending for a much longer time.

Also, to keep future recruitments in mind, companies should have a good plan in how to attract personnel. For instance, top talents might not be interested to move to distant locations, which can result in lack of good staff she says.

Some development zones (especially in second-tier cities) have merged this into their strategy for attracting foreign companies, whereas some, e.g. city-level taxes, can be re-funded in regards of labor costs, upon recruiting recent graduates.

Case 2. Racing Dragon Ltd.

Jari Teerisaari is a China professional with over 10 years of experience from running companies in China, having established his first company to Shanghai in 2005. Today Jari works as the Managing Director for Racingdragon Logistics Co. Ltd., a professional logistics supplier with headquarters in Waigaoqiao, Shanghai.

In 2005 Jari established his first company into the Waigaoqiao Free Trade Zone. This location was partly chosen due to recommendations from suppliers. The aim was to act as the distributor and transit area for goods, for the parent company in Finland.

Establishing the company was easy, but Jari stresses the importance of having a good consultant who has knowledge about the regulatory system and adequate language skills. It took around three months to register and get the license. The plan was to utilize the free trade zone as a transit area, where goods could be stored and declared as bonded, duty free. The aim was to import components as bonded, whereas they could be processed or produced into a final product, and finally exported abroad (duty free) or further imported to Mainland China, whereas taxes were to be paid.

This turned out to be complicated, while only a few components actually were from outside origin. This resulted in complicated customs formalities as the initial process could not be implemented, and components had to move in and out from the zone in various steps.

The company Jari presently runs was established into Waigaoqiao Free Trade Zone in 2004. The zone had at that time already become a major logistics center, and thus provided a natural choice of location. The aim was and still is to specifically be close to its customers, which are foreign major enterprises, namely those of the Fortune 500.

The true effects on being post- incorporated into the SH PFTZ have been rather small to existing operations according to Jari. He believes that the most significant changes he will likely see in the near future are an increasing number of companies registering to the area, and broader English services.

Case 3. Frog Global

Frog Global operates in the fields of Development/Construction and Business Support/HR, with a range of activities focusing on bringing new technologies and techniques into the marketplace, bringing the vision of “We Make Life Better” in the areas of Construction and Business Development in China, Australia and New Zealand.

Nick Oettinger is the CEO of Frog Global and has years of experience from various tasks and areas in China.

Nick recently took his company to the SH PFTZ, while having already been present in Shanghai since many years. According to Nick, the benefits of being in the SH PFTZ responds to carrying trade business, as no taxes are involved. Also trade related services are well established there, e.g. warehousing for inventory or cargo services.

As for the registration, there is no need for a capital verification, or to deposit funds to the capital account within 20-30 years, which all depends on the owner’s age. A purely foreign owned trading company will take about 40-50 working days to establish, and local third party agents can be hired to take care of this, while legal representatives will have to show up twice in person during the process, Nick explains. The costs for purely this procedure could be about RMB 6000, he adds. As for the online registration platform, the owner’s presence is still required, whether done online or through an agent, he clarifies. If setting up a joint venture, however, the process will be much more complicated since a lot more background information and verification will be required from both owners. Due to its far distance from the city, Nick tells that a so called “virtual office” can be set up in the zone, which can be a small space with relatively cheap rent, and use this office for specific operations associated with the SH PFTZ. As the registration address has to specifically be inside the SH PFTZ, this is one alternative, if other operations are wanted to be kept elsewhere, he adds.

Breakfast seminar: *Succeed in China*

On the 10th of February 2015, the Finnish Trade Organization FINTRA organized a breakfast seminar *Succeed in China*, see Appendix 4 for program schedule. The event gave an introduction about challenges related to entering and operating in China. The program was built together with external speakers with hands-on knowledge about the Chinese market. The seminar was opened by FINTRA's leading consultant Jarkko Pajusalo, and CEO Kaisa Vikkula, with a brief general introduction in the market situation and what future trends may be expected.

While giving their respective speeches, the speakers provided the over 150 people audience with personal experiences from China.

Case 1. Gert-Jan Hendriks, Export Manager, Kekkilä.

Kekkilä's increased attention on China has been a natural process of growth in the market. Kekkilä supplies its products to Mainland China and Taiwan through selected distributors.

During Gert-Jan's experience in China, he had encountered various forms of differences compared to any of the markets he had previously been involved in. Along his presentation, Gert-Jan introduced various cultural and behavioral nuances that differ significantly from the West, differences that still affect everyday operations in China but which far too often are forgotten by western professionals.

When discussing further with Gert-Jan, he explained that Kekkilä is not currently considering to enter China as such. Kekkilä's distributors are the local representatives in China, while Kekkilä supplies and supports them. According to Gert-Jan, setting up a company in China would be too complicated, costly and not needed.

Case 2. Mari Turhanen, Director, Licensing & IPR, 5th Wave Brands.

Mari Turhanen gave her speech about Intellectual Property Rights and challenges related to IPR issues while entering China. Mari brought up examples of famous companies who had forgotten the importance of IPR and registering trademarks in China, many of the cases which had resulted in significant monetary losses. Mari brought the subject of IPR

issues to a new light for the whole audience, while stressing the importance of registering trademarks as early as possible. This is especially crucial in China, as registering a trademark is relatively cheap. Some people seek to exploit this opportunity in hopes of monetary gains. Mari explained that some Chinese individuals browse the internet for companies who might be interested to enter China at some point in the future. Hereafter they use the company's name and register it in China, leaving the actual owner unaware of the situation. When the actual owner at some point in the future wishes to enter the market with its original trademark they are faced with a hopeless situation. According to Mari, some of the cases have been solved with the actual owner buying its trademark back from the Chinese owner, while some companies have been forced to build a totally new brand, only due to this treachery. Mari's recommendations over the whole presentation therefore pointed out the importance of registering trademarks as early as possible, including necessary subcategories.

Case 3. Karen Cheung, Senior Business Development Manager, Orangefield.

Karen Cheung introduced herself as a Chinese American business professional with academic background from both of the continents. She is the Senior Business Development Manager for Orangefield, a global consultancy group helping companies in international expansion. Karen provided the audience with her experience from helping companies succeed in China. She continued on Mari's topic on IPR issues in China, following with suggestions on market entry alternatives and cultural differences. Karen's background from working in Hong Kong gave her speech a concrete sense of issues that foreigners face while considering a China entry.

At the end of her speech, Karen introduced the alternative of establishing a company in Hong Kong and what benefits this alternative brings when entering the Mainland. She explained that due to Hong Kong's history under Great Britain, Hong Kong still adopts a legal system based on the English common law, while the legal system in Mainland China is much based on a civil law system. Apart from English being the official language and the modern infrastructure of the city, Karen also introduced the tax system being one of Hong Kong's most valued advantages. Under these circumstances, Hong Kong might according to Karen offer an easier entry model while entering Mainland China, a lot due to the city's western and international practices.

8 DISCUSSION AND CONCLUSION

China will continue to offer advantages to foreign investors in many ways despite changes in market conditions. What is important to see is that there are already signs of changes in acquiring these advantages. As living standards are expected to increase further, this naturally affects many decisions. Having been a highly labor intensive manufacturing and exporting country, China is now taking measures for stabilizing its position responding to new challenges. This can be seen for example in what industries are being encouraged. Already more and more R&D investments are being made within China. Green energy and high-tech industries are being encouraged to solve existing and future issues, accelerating a gradual transformation from quality over quantity.

After it's opening in 2013, the SH PFTZ has been a popular topic of discussion within business circles in China and beyond. Having now (3.2015) been operational for over a year opinions seem divided. Much of the pre- opening hype has been calmed down by the rather slow implementation of measures. This can be seen from the relatively small amount of foreign companies registered in the zone, accounting for only a little more than 10 %, or less if Hong Kong and Taiwan are excluded. It is evident that establishing a foreign invested enterprise is faster and easier in the SH PFTZ. The zone offers and will continue to develop faster than the Mainland, to open up and correspond to more open and western patterns. Due to simplified procedures the pure set-up will also much likely become less expensive within the SH PFTZ. Whether these characteristics regarding establishment time and costs will bring advantages to any company in the long run are however unlikely. Benefiting from being operational in the SH PFTZ will have to be justified through other qualities. As experience is successfully earned from the zone the successes will continue to take action elsewhere across the Mainland. This is good to keep in mind considering the advantages of the SH PFTZ, as goals are specifically to extend successful practices to the rest of the country.

The SH PFTZ will offer advantages if correctly understood. Misunderstanding its policies will on the contrary become as disadvantageous. Companies have to have a clear picture of how the system works. Misunderstanding the customs formalities will become costly, and at worst lead to having to change location permanently. This underlines the fact that

the SH PFTZ will not be suitable for all businesses. Trade related operations have to be carefully planned, adapting strictly to the policies of the SH PFTZ. A fundamental understanding of the specific import and export practicalities of the zone will provide an understanding, whether a company can take advantage of the SH PFTZ. If proven complicated, the decision of not establishing to the free trade zone should be taken, or limit and/or change the approach.

Justifications for entering the SH PFTZ could be many. A company could be entering a previously restricted industry taking advantage of the zone's relaxed restrictions, or set up a processing facility with transit functions. Whichever the case, a deep understanding is crucial. Moreover, the SH PFTZ could be used for a part of a company's operations, as explained by Li and Oettinger. This provides a safer approach, yet focusing on what is relevant, in this case taking advantage of specific policies associated with the free trade zone. This alternative could be suitable to companies who carry some amount of trade, but are still e.g. active in other parts of the country, thus not restricting their operations to unnecessary customs formalities.

It seems that most of the companies in the SH PFTZ are still focused on trade related operations, taking advantages of benefits usually associated with free trade zones in general. This, in turns might indicate that there is interest towards the area, but a safe approach is being taken as implementation of new reforms have been rather slow.

When considering a market entry into China, it is probable that the most important task is to validate the market through a proper market research. This not only will provide foreign investors with valuable knowledge about the Chinese market, but also make them understand how/why they should adjust or re-engineer themselves for being successful in China. A successful product may not be suitable for the Chinese market for a range of unexpected reasons. This might be very difficult or even impossible for western decision makers to understand. A small adjustment could however alter and provide a solution to the problem, if correctly understood. Moreover it is crucial to understand that there lie massive cultural differences between China and the west. They are not likely to change, and the only method for proceeding successfully is to adapt.

When establishing a company in China the alternatives should always be considered uniquely from that specific company's perspective, keeping a long-term mind set. China is not a market for a quick entry and exit strategy, and no single formula provides answers for guaranteed success. Only after truly understanding the differences, further decisions can be taken.

Once the plan has been considered feasible there are many ways how to proceed. A good start might be seeking preliminary advice from governmental organizations such as Team Finland. They provide free of charge advice, and can together develop the idea from a specific company perspective. There are furthermore various consultants with Scandinavian and western experience, both in China and abroad, to help companies along the set up process and further. As mentioned earlier, it is recommended to seek advice in complicated issues, which experts in the field most likely will already have experiences of.

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APPENDIX 1.

MINISTRY OF COMMERCE PEOPLE'S REPUBLIC OF CHINA

The Foreign Investment Industry Guidance Catalogue (Amended in 2011)

<http://english.mofcom.gov.cn/article/policyrelease/aaa/201203/20120308027837.shtml>

Catalogue of Encouraged Foreign Investment Industries

I. Farming, Forestry, Animal Husbandry and Fishery Industries

- (1) Planting, development and production of woody edible oil, ingredient and industrial raw material
- (2) Cultivation technologies development and production of green and organic vegetables (including edible fungus, watermelon and melon), dried and fresh fruits and tea
- (3) New technology development and production of sugar-yielding crops, fruit trees, forage grass
- (4) Production of flowers and plants, and construction and operation of nursery base
- (5) Planting of rubber, oil palm, sisals and coffees

List continues further with 13 categories.

Catalogue of Restricted Foreign Investment Industries

I. Farming, Forestry, Animal Husbandry and Fishery Industries

- 1. Breeding and seeds developing production of new train crop breed (Chinese party shall hold the majority of shares)
- 2. Processing of the logs of precious varieties of trees (limited to equity joint ventures or contractual joint ventures)
- 3. Cotton (raw cotton) processing

List continues further with 12 categories.

APPENDIX 2.

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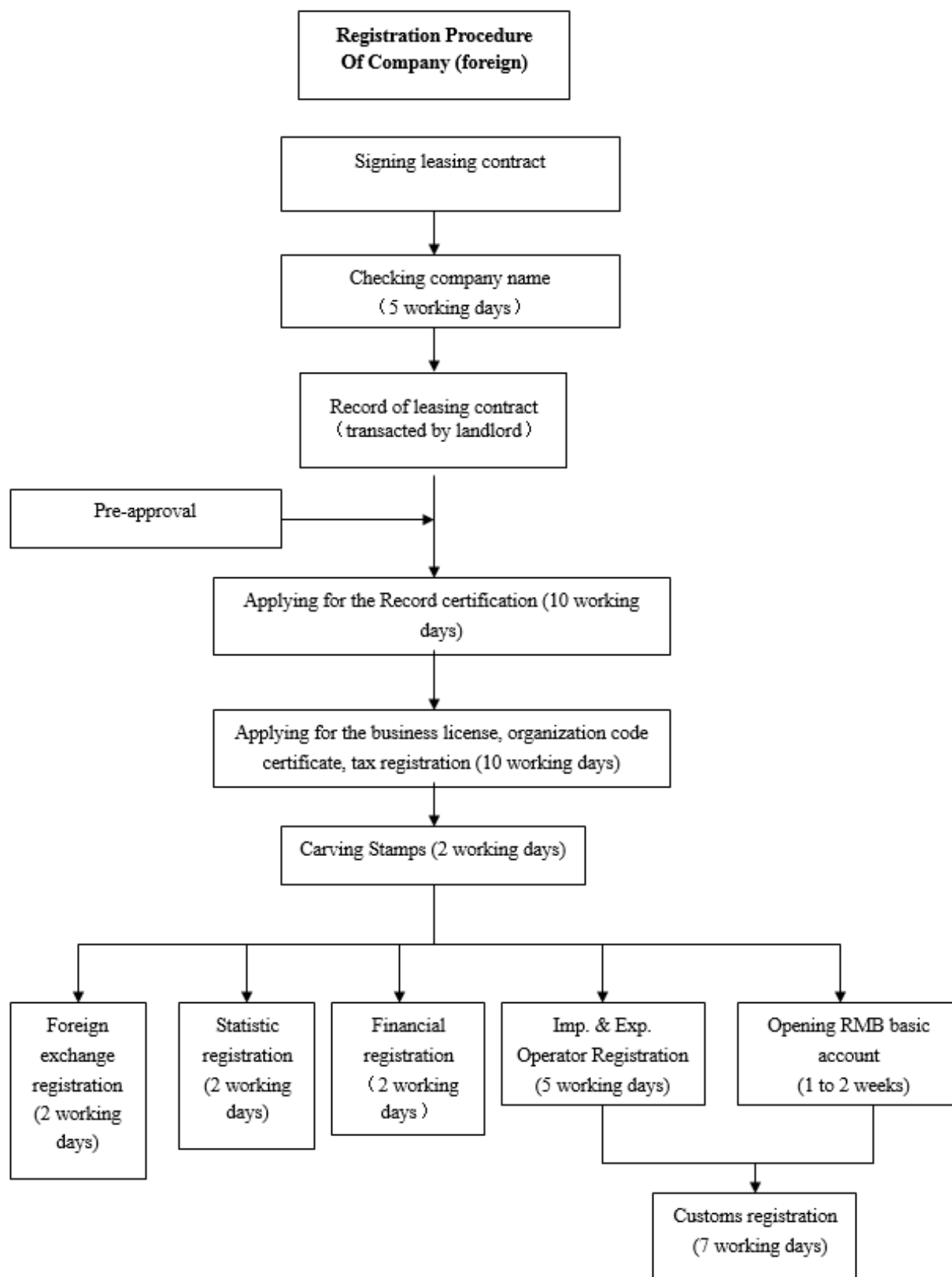
http://www.s-ge.com/de/filefield-private/files/55352/field_blog_public_files/14944

Name list of approved state and city-level development zones/ Industrial Parks (41 in total)

No. Name as approved Level

- 1 [Zhangjiang High-tech Park](#) State-level
- 2 [Caohejing Newly Emerging Technology Development Zone](#) State-level
- 3 [Caohejing Export Processing Zone](#) State-level
- 4 [Jinqiao Export processing Zone \(southern part\)](#) State-level
- 5 [Jinqiao Export Processing Zone](#) State-level
- 6 [Waigaoqiao Bonded Area\(Waigaoqiao Free Trade Zone\)](#) State-level
- 7 Yangshan Bonded Port Area State-level
- 8 [Minhang Economic and Technical Development Zone](#) State-level
- 9 Songjiang Export Processing Zone State-level
- 10 [Minhang Export Processing Zone](#) State-level
- 11 [Qingpu Export Processing Zone](#) State-level
- 12 Jiangding Export Processing Zone State-level
- 13 Sheshan State-level Tourist and Vacation Area State-level
- 14 [Hongqiao Economic and Technical Development Zone](#) State-level
- 15 [Lujiaozhui Finance and Trading Zone](#) State-level
- 16 [Shanghai Baoshan Industrial Park](#) City-level
- 17 [Shanghai Yueyang Industrial Park](#) City-level
- 18 Shanghai Fusheng Economic Development Zone City-level
- 19 Shanghai Pudong Airport Industrial Park City-level
- 20 [Shanghai Jiading Industrial Park](#) City-level
- 21 [Shanghai Automobile Accessories Industrial Park](#) City-level
- 22 [Shanghai Xinzhuang Industrial Park](#) City-level
- 23 [Shanghai Qingpu Industrial Park](#) City-level
- 24 Shanghai Xijiao Industrial Park City-level
- 25 [Shanghai Songjiang Industrial Park](#) City-level
- 26 [Shanghai Songjiang Economic Development Zone](#) City-level
- 27 [Shanghai Fengxian Economic Development Zone](#) City-level
- 28 [Shanghai Jinshan Industrial Park](#) City-level
- 29 Shanghai Fengjing Industrial Park City-level
- 30 Shanghai Zhujing Industrial Park City-level
- 31 Shanghai Shibei Industrial Park City-level
- 32 Shanghai Chongming Industrial Park City-level
- 33 [Shanghai Xinghuo Development Zone](#) City-level
- 34 [Shanghai Zizhu High-tech Industrial Park](#) City-level
- 35 [Shanghai Pudong Kangqiao Industrial Park](#) City-level
- 36 Shanghai Chemical Industrial Park City-level
- 37 Shanghai Xinyang Industrial Park City-level
- 38 Shanghai Pudong Heqing Industrial Park City-level
- 39 [Shanghai Nanhui Industrial Park](#) City-level
- 40 Shanghai Fengcheng Industrial Park City-level
- 41 Shanghai Weilaidao High-tech Industrial Park City-level

APPENDIX 3.



APPENDIX 4.

Succeed in China seminar, 10.2.2015

Program schedule

Time: 10.2.2015 at 8.00 AM

Place: HTC, Tammasaarenkatu 5, Helsinki

- 8.00 Breakfast
- 8.30 Welcome words (in Finnish)
Jarkko Pajusalo, leading consultant, Fintra
- 8.40 **Finnish companies in China (in Finnish)**
Kaisa Vikkula, CEO, Fintra
- 9.00 **With special growth media to Chinese greenhouse business**
Gert-Jan Hendriks, Export Manager, Kekkila
- 9.30 **Protecting your brand in China (in Finnish)**
Mari Turhanen, Director, Licensing & IPR, 5th Wave Brands
- 10.15 **Finnish companies entering China — what can be learned**
- Finnish Company cases
 - Doing Business in China — investment trends, practical challenges, legal issues
 - Hong Kong advantages for China business
- Karen Cheung, Senior Business Development Manager, Orangefield Asia*
- 11.00 Lunch

*Mari Turhanen has previously worked for Rovio with IPR-related questions. 5th Wave Brands' clients include Badland, Hill Climb Racing and Ruzzle.